

Message Text

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C O N F I D E N T I A L NEW DELHI 12542

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E.O. 11652: GDS

TAGS: EFIN, IN

SUBJECT: FINANCE MINISTRY VIEWS ON IMF/IBRD MEETINGS, KISSINGER
SPEECH AT UN, AND EXCHANGE RATE POLICY

REF: NEW DELHI 12182

BEGIN SUMMARY: FINANCE MINISTRY OFFICIALS WHO ATTENDED WASHINGTON MEETINGS INDICATED INDIAN DISSATISFACTION WITH DECISION ON GOLD (SEE REFTEL). VIEW WAS REFLECTED IN THE COMMUNIQUE OF INTERIM COMMITTEE AND CONTINUES TO BE STRESSED HERE. BELIEF IS THAT INDIA WILL BENEFIT VERY LITTLE FROM DECISIONS TAKEN IN WASHINGTON AND FROM PROPOSALS OUTLINED IN KISSINGER SPEECH. EXPANSION OF IFC AND ADOPTION OF COMMODITY AGREEMENTS SEEN OF LITTLE RELEVANCE TO INDIAN SITUATION. QUESTIONS RAISED AS TO HOW VARIOUS PROPOSALS WOULD BE IMPLEMENTED. ON INDIAN EXCHANGE RATE POLICY, RUPEE LINK TO STERLING IS A "SITUATION WHICH IS UNDER CONSTANT REVIEW." END SUMMARY.

1. FINATT CALLED ON BAIJAL AND KRISHNASWAMY, BOTH JOINT SECRE-
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TARIES AT THE FINANCE MINISTRY, TO GET VIEWS ON PROPOSALS MADE

BY THE U.S. AT THE IMF/IBRD MEETINGS AND AT THE UN. BOTH GENTLEMEN, IN SEPARATE CONVERSATIONS, STRESSED INDIA'S UNHAPPINESS WITH DECISIONS MADE ON GOLD. INDIA WILL BENEFIT VERY LITTLE IN REAL TERMS, SINCE GOLD TO BE RETURNED IS MINIMAL, AND BELIEVES THE WHOLE SCHEME WILL VASTLY INCREASE WORLD LIQUIDITY AND BE HIGHLY INFLATIONARY.

2. INDIANS REGARD VARIOUS PROPOSALS PUT FORWARD BY SECRETARIES SIMON AND KISSINGER SUCH AS THE DEVELOPMENT SECURITY FUND, EXPANSION OF IFC, AND SPECIFIC COMMODITY AGREEMENTS AS OF LITTLE RELEVANCE IN THE INDIAN CONTEXT. QUESTIONS WERE ASKED AS TO HOW THE DEVELOPMENT SECURITY FUND WOULD WORK AND WHERE THE FUNDING WOULD COME FROM FOR THAT AND OTHER PROPOSALS PUT FORWARD. INDIA'S DEALINGS WITH IFC HAVE BEEN VERY LIMITED IN THE PAST WITH ONLY ONE LOAN HAVING BEEN NEGOTIATED. SINCE INDIA'S EXPERTS ARE QUITE DIVERSIFIED, THEY DO NOT SEE COMMODITY AGREEMENTS AS BEING A USEFUL TOOL TO AID IN THEIR DEVELOPMENT. MOREOVER, THE INDIANS BELIEVE IT WOULD HAVE BEEN EXTREMELY USEFUL IF THEY COULD HAVE HAD CONSULTATIONS WITH THE U.S. BEFORE KISSINGER PROPOSALS WERE ANNOUNCED. THEY DO NOT SEE ANY REAL TRANSFER OF RESOURCES IN THESE PROPOSALS AND WONDER HOW, IN FACT, THEY ARE TO BE IMPLEMENTED. WILL THERE BE A MAJOR EFFORT TO COORDINATE THEM IN THE VARIOUS FORUMS, I.E., IMF, IBRD, UNCTAD, ETC?

3. QUESTION OF RUPEE LINK TO STERLING WAS RAISED. THE STATEMENT "SITUATION IS UNDER CONSTANT REVIEW," IS, IN FACT, TRUE. ALMOST 70 PERCENT OF INDIA'S IMPORTS ARE PAID FOR IN DOLLARS (THIS INCLUDES OIL PAYMENTS) WHICH INDICATES THE IMPORTANCE INDIA ATTACHES TO THE DOLLAR/RUPEE RATE. RECENT WEAKNESS OF STERLING IS SEEN PARTLY AS A REFLECTION OF DOLLAR'S STRENGTH. SOME DEPRECIATION OF THE RUPEE HELPS EXPORTS BUT RAISES THE PRICE OF IMPORTS AS WELL. INDIA'S RECENT SMALL REVALUATION SHOWS THAT THEY ARE NOT WILLING TO LET THE RATE DROP TOO FAR.
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